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AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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July 29, 2015

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

FROM: John Naimo 
Auditor-Controller

SUBJECT: **REGISTRAR-RECORDER/COUNTY CLERK – EQUIPMENT AND
SUPPLY WAREHOUSING REVIEW**

We completed a review of the Registrar-Recorder/County Clerk's (RR/CC or Department) compliance with County equipment and supply warehousing policies and procedures, including controls over both capital and non-capital equipment. Our review included interviewing RR/CC personnel, evaluating equipment oversight and tracking, inventorying a sample of equipment and supplies, and observing warehouse operations.

As of June 30, 2014, the RR/CC had capital equipment (assets costing more than \$5,000 with a useful life of more than one year) with a total acquisition cost of approximately \$12.5 million, and one supply warehouse/stockroom with inventory totaling \$5.5 million. Departments are not required to keep a record of the acquisition cost of non-capital equipment.

Summary of Findings

Based on our review, the Department appropriately conducted annual physical inventories of their supplies as required, generally maintained accurate records of capital and non-capital equipment, and properly disposed of obsolete capital equipment. However, we noted that RR/CC management needs to ensure the Department complies with other County equipment and supply inventory requirements. The following are examples of areas for improvement:

- RR/CC needs to ensure staff with physical custody of inventory do not have access to inventory records. We noted that five (42%) of the 12 employees with access to supply inventory records also had custody of the supplies. In addition, for all 20 inventory adjustment transactions reviewed, the employee who entered and/or approved the adjustment in the supply inventory records in the County's electronic Countywide Accounting and Purchasing System (eCAPS) also had custody of the supplies.

RR/CC's attached response indicates that they will ensure staff with physical custody of supplies do not have the ability to modify inventory records.

- RR/CC needs to ensure that staff keep accurate supply inventory records. We reviewed 12 different types of supplies (21,647 units), totaling \$26,300, and noted that the Department could not locate 108 units for some types of supplies, resulting in an overstatement of inventory of \$2,400 for our sample. In addition, the RR/CC had 23 extra units for other types of supplies, resulting in an understatement of \$150.

RR/CC's attached response indicates that they have implemented reconciliations of supply inventory counts with eCAPS reports to reflect actual quantities on hand.

- RR/CC needs to ensure that staff document their reviews of slow moving and obsolete items. While RR/CC management indicated that they periodically review slow moving and obsolete items, and we did not note any obsolete items during our review, these reviews are not documented.

RR/CC's attached response indicates that they will implement a procedure that requires staff to canvass slow moving items on a bi-annual basis, and a signed authorization before items are removed from inventory.

- RR/CC needs to ensure non-capital equipment is inventoried annually, and that their inventory is documented. We noted that RR/CC could not provide documentation to support completion of a physical inventory.

RR/CC's attached response indicates that while the Department has had a process in place to conduct annual physical inventories since July 2013, they will ensure staff properly document adherence to this process.

Details of these and other findings and recommendations for corrective action are included in Attachment I.

Review of Report

We discussed the results of our review with RR/CC management. The Department's attached response (Attachment II) indicates agreement with our findings and recommendations.

We thank the Department's management and staff for their cooperation and assistance during our review. If you have any questions, please contact me, or your staff may contact Robert Smythe at (213) 253-0100.

JN:AB:RS:MP

Attachments

- c: Sachi A. Hamai, Interim Chief Executive Officer
Dean C. Logan, Registrar-Recorder/County Clerk
Public Information Office
Audit Committee

**REGISTRAR-RECORDER/COUNTY CLERK
EQUIPMENT AND SUPPLY WAREHOUSING REVIEW**

Background and Scope

The Registrar-Recorder/County Clerk's (RR/CC or Department) Asset Management Division is responsible for tracking capital equipment (assets costing more than \$5,000 with a useful life of more than one year) and non-capital equipment (portable equipment that costs less than \$5,000 per item). The Supplies Store Unit is responsible for managing the Department's one supply warehouse. As of June 30, 2014, the RR/CC had capital equipment (e.g., computers, election-related equipment, etc.) with a total acquisition cost of approximately \$12.5 million, and one supply warehouse with inventory (e.g., business document supplies, ink cartridges, etc.) totaling \$5.5 million. Departments are not required to keep a record of the acquisition cost of non-capital equipment.

We reviewed the RR/CC's equipment and supply warehousing practices for compliance with County policies and procedures. Our review included interviewing RR/CC staff and management, observing supply warehouse operations, evaluating capital and non-capital equipment controls, and inventorying a sample of supplies and equipment.

COMMENTS AND RECOMMENDATIONS

SUPPLY WAREHOUSING

Based on our review, the Department conducted annual physical inventories of their supplies as required. However, we noted that RR/CC management needs to ensure the Department complies with other County supply inventory requirements as detailed below.

Segregation of Duties

County Fiscal Manual (CFM) Section 5.2.3 requires departments to adequately separate the functions of ordering, authorizing, receiving, conducting physical inventories, and recording transactions to ensure that inventory records are accurate and to reduce the risk of misappropriation.

We noted that the RR/CC does not have adequate separation of duties for supply warehousing functions. Specifically:

- Five (42%) of the 12 staff with the ability to alter supply inventory records also had physical custody of the supplies.
- For all 20 (100%) inventory adjustment transactions reviewed, the employee who entered and/or approved each adjustment in the supply inventory records in the

County's electronic Countywide Accounting and Purchasing System (eCAPS) also had custody of the supplies.

To ensure that records are accurate and to reduce the risk of misappropriation, RR/CC management should ensure that staff with physical custody of supplies do not have the ability to alter supply inventory records.

Recommendation

- 1. Registrar-Recorder/County Clerk management ensure staff with physical custody of supplies do not have the ability to alter supply inventory records.**

Inventory Adjustments

CFM Sections 5.2.5 and 5.3.2 require management to approve supply inventory adjustments before making adjustments to inventory records. Departments should also ensure that they document the reason for making inventory adjustments.

We reviewed 20 adjustments to supply inventory, totaling approximately \$5.3 million, and noted that while all of the adjustments were approved, the Department did not document the reason for the adjustment. Subsequent to our review, the Department told us that the adjustments were primarily due to issues with the unit of measurement, and were not a result of any missing or surplus items. However, without documenting the reasons for adjustments management cannot evaluate the validity of the adjustment prior to approval.

RR/CC management should ensure staff document the reason for any adjustments to supply inventory records prior to approval.

Recommendation

- 2. Registrar-Recorder/County Clerk management ensure staff document the reason for any adjustments to supply inventory records prior to approval.**

Inventory Accuracy

CFM Section 5.2.6 requires departments to maintain perpetual inventory records and ensure that inventory records are accurate by recording additions and deletions as they occur.

We identified inaccuracies within the RR/CC's perpetual inventory records. We performed a physical inventory of 12 different types of general office supplies (21,647 total units), totaling \$26,300, and noted that the Department could not locate 108 units for some types of supplies, resulting in an overstatement of \$2,400 for our sample. In

addition, the RR/CC had 23 extra units for other types of supplies, resulting in an understatement of \$150.

RR/CC management indicated that these discrepancies may have been due to data entry errors when staff recorded additions or deletions in the perpetual inventory records.

Recommendation

- 3. Registrar-Recorder/County Clerk management ensure staff maintain accurate inventory records.**

Inventory Monitoring/Controls

CFM Section 5.2.6 requires departments to periodically identify slow moving and obsolete items, and to report any identified items to management for corrective action.

We noted that the Department cannot ensure that they periodically identify slow moving and obsolete items. While the RR/CC management indicated that they monitor their inventory for slow moving and obsolete items, and we did not note any obsolete items during our review, the Department does not document their reviews. RR/CC management should ensure staff document their periodic review of slow moving and obsolete items, and report any identified items to management for corrective action.

Recommendation

- 4. Registrar-Recorder/County Clerk management ensure staff document their periodic review of slow moving and obsolete items, and report any identified items to management for corrective action.**

CAPITAL AND NON-CAPITAL EQUIPMENT

Based on our review, the Department generally maintained accurate records of capital and non-capital equipment, and properly disposed of obsolete capital equipment. However, we noted that RR/CC management needs to ensure the Department complies with other County non-capital equipment requirements as detailed below.

Annual Physical Inventory

CFM Section 6.8.2 requires departments to physically inventory non-capital equipment annually, retain inventory documentation, and reconcile the physical inventory to the department's master list of non-capital equipment.

As mentioned, the Department's non-capital equipment records were generally accurate based on our sample. However, we noted that the Department could not provide documentation that they performed an annual physical inventory of non-capital

equipment. While RR/CC management indicated that they do conduct annual inventories, documenting them helps ensure that they are conducted properly.

Recommendation

- 5. Registrar-Recorder/County Clerk management ensure annual physical inventories are conducted and properly documented.**

Elections Equipment Loan Forms

The Department's Elections Operation Center (EOC) is responsible for maintaining and tracking elections related equipment (e.g., voting booths). Every election, the EOC loans out any necessary equipment to the polling locations, along with a loan form indicating which equipment was sent. Inspectors at each polling location and EOC staff are required to complete and sign the form once received.

We reviewed 20 loan forms and noted that while the inspectors did sign the forms, staff did not complete all sections on 14 (70%) of the forms, such as indicating the equipment (e.g., kiosk, precinct ballot reader, etc.) picked-up by each inspector before the election. Completing all sections of the form helps ensure accountability for loaned equipment as it is transferred between the EOC and the polling locations. RR/CC management should ensure staff complete all sections of the loan forms for elections related equipment before inspectors sign the forms.

Recommendation

- 6. Registrar-Recorder/County Clerk management ensure staff complete all sections of the loan forms for elections related equipment before inspectors sign the forms.**



Los Angeles County Registrar-Recorder/County Clerk

Dean C. Logan
Registrar-Recorder/County Clerk

July 14, 2015

TO: John Naimo
Auditor-Controller

FROM: Dean C. Logan *Mark for*
Registrar-Recorder/County Clerk

**REGISTRAR-RECORDER/COUNTY CLERK – EQUIPMENT AND SUPPLY WAREHOUSING
REVIEW – RESPONSE TO DRAFT AUDIT FINDINGS**

Attached is the Registrar-Recorder/County Clerk's response to the six recommendations contained in the A-C Equipment and Supply Warehousing Review. We concur with your recommendations and will continue to implement strategies designed to address the findings and recommendations of this audit.

We appreciate the opportunity to include our response in your report, and thank your staff for their professionalism conducting their review of our operations.

Please let me know if you have any questions or your staff may contact Chris Nwadiwe, Fiscal Compliance Officer, at (562) 462-2944 or via email at cnwadiwe@rrcc.lacounty.gov.

DCL:RF:th

Attachment

c: Debbie Martin
Rita Figueroa
Jeremy Gray
Tim McNamara
Chris Nwadiwe

ATTACHMENT

FINANCE AND MANAGEMENT DIVISION
SUPPLY STORE SECTION
RESPONSE TO AUDITOR-CONTROLLER, LOS ANGELES COUNTY
JULY 14, 2015

Recommendation:

1. **Registrar-Recorder/County Clerk management ensure staff with physical custody of supplies do not have the ability to alter supply inventory records.**

RR/CC Response: *We agree with this recommendation.* Going forward, we will ensure the separation of duties in the Supply Store to ensure that staff with physical custody of supplies does not have access to modify or alter adjustment of supply inventory records.

Target date: September 1, 2015

Recommendation:

2. **Registrar-Recorder/County Clerk management ensure staff document the reason for any adjustments to supply inventory records prior to approval.**

RR/CC Response: *We agree with this recommendation.* We have implemented a practice where written justification is provided and reviewed prior to the Procurement Manager approving any write-offs and/or inventory adjustments.

Implementation date: July 1, 2015

Recommendation:

3. **Registrar-Recorder/County Clerk management ensure staff maintain accurate inventory records.**

RR/CC Response: *We agree with this recommendation.* We will utilize a method that involves reconciling the physical count with eCAPS reports that reflect the quantity on hand and available quantity.

Implementation date: February 2, 2015

Recommendation:

4. **Registrar-Recorder/County Clerk management ensure staff document their periodic review of slow moving and obsolete items, and report any identified items to management for corrective action.**

Responses to Auditor-Controller, Los Angeles County
July 14, 2015

RR/CC Response: *We agree with this recommendation.* We will institute a procedure that requires the Supply Store to canvass slow moving items on a bi-annual basis and requires operations approval via a signed authorization prior to removing them from inventory.

Target date: August 1, 2015

Recommendation:

- 5. Registrar-Recorder/County Clerk management ensure annual physical inventories are conducted and properly documented.**

RR/CC Response: *We agree with this recommendation.* Since July 2013, we have had a process in place; however, we will ensure that staff continues to adhere to it and properly document and store information for all inventories.

Implementation date: August 1, 2015

Recommendation:

- 6. Registrar-Recorder/County Clerk management ensure staff complete all sections of the loan forms for elections related equipment before inspectors sign the forms.**

RR/CC Response: *We agree with this recommendation.* We will remind staff in training to ensure that the forms are fully completed and implement the recommendation in the next election supply pick-up.

Target date: October 24, 2015